



WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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Economic Risks Increase in the Aftermath of the Terrorist Attack

- ***The economy was already weak before the attacks.*** The past week's economic news, understandably lost amid the enormity of the attacks, largely confirmed that the economy remains weak. Industrial production fell again in August, while inflation in consumer and producer prices excluding food and energy was low or declining. Although advance estimates for retail sales and food services in August were higher than expected, initial claims for unemployment insurance rose sharply during the first full week in September. By week's end, of course, whatever attention the economy attracted was sharply focused on the direct and near-term aftermath of the tragedy.
- ***National wealth declined.*** The direct effect of the attacks was a reduction in the nation's capital stock and the income flows associated with that stock. The dollar magnitude of that reduction is highly uncertain. Estimates of the total insured losses stemming from the attacks range from \$15 to \$40 billion. However, property losses are likely to be a relatively small portion of national wealth. For example, the World Trade Center (certainly the single largest property loss) was recently valued at just over \$3 billion, a minuscule proportion of the total stock of physical capital. Of course, the human costs are beyond economic calculation.
- ***Central banks have responded to support the financial system.*** The Federal Reserve has demonstrated its intent to avert a liquidity crisis by injecting nearly \$200 billion into the banking system and by lowering the federal funds rate. Foreign central banks have cooperated, sending cash into their respective financial systems, agreeing to temporary swap arrangements with the Federal Reserve, and reducing their domestic interest rates. These measures appear to have gone a long way toward reassuring financial markets—U.S. equity prices declined by about seven percent on the day markets reopened, pretty much in line with last week's declines in world stock markets. By contrast, U.S. equity prices fell by 22 percent on the market's single-worst day in 1987.
- ***Nevertheless, the near term prospects for the economy are more uncertain.*** The travel industry in general and airlines in particular will face a tough road in coming months. Increased spending by the federal government, however, could offset some of those losses. The most critical risk to the overall economic picture is how household spending will fare. A sudden collapse in consumer confidence may occasion a sharp decline in household spending. If so, the economy could slip into recession. Unfortunately, we won't have our first clear glimpse of the actual economic consequences of the aftermath for a month or so.

Economy At A Glance	Aug	Jul	Jun	May	2001 Qtr 2	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000	1999
Economic Activity										
Real GDP (% growth)					0.2	1.3	1.9	1.3	4.1	4.1
Industrial Production (% growth)	-9.2	-1.2	-12.7	-3.5	-4.4	-6.8	-0.9	3.5	5.6	4.2
Capacity Utilization (Level, %)	76.2	76.9	77.1	78.0	77.8	79.2	81.3	82.4	82.1	81.2
Civilian Unemployment Rate (Level, %)	4.9	4.5	4.5	4.4	4.5	4.2	4.0	4.0	4.0	4.2
Housing Starts (Thousands)*		1672	1627	1610	1621	1627	1539	1505	1575	1647
Real Disposable Personal Income (% growth)		23.8	1.7	0.2	2.4	2.7	4.2	2.7	3.5	2.5
Retail Sales (% growth)	4.0	2.0	-0.2	2.4	5.2	5.2	0.3	4.7	7.6	8.2
Personal Saving Rate (Level, %)		2.5	1.0	1.1	1.1	1.1	1.0	0.8	1.0	2.4
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)	1.2	-3.5	2.7	4.9	3.1	4.2	2.9	3.5	3.4	2.2
Core CPI-U Inflation (% growth)	2.4	2.4	3.9	1.3	2.6	3.2	2.4	2.5	2.4	2.1
Compensation per Hour (% growth)					4.1	4.5	3.6	3.6	4.4	3.5
Output per Hour (% growth)					2.1	0.0	2.4	1.4	3.0	2.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.4	3.5	3.5	3.6	3.7	4.8	6.0	6.0	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.0	5.2	5.3	5.4	5.3	5.1	5.6	5.9	6.0	5.7
Federal Funds Rate (Level, %)	3.7	3.8	4.0	4.2	4.3	5.6	6.5	6.5	6.2	5.0
Dow Jones Industrial Avg(Index Level)	10315	10445	10767	11005	10669	10513	10586	10882	10735	10465
<p>Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.</p> <p>Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.</p> <p>* Subject to revision this week.</p>										

Major Economic News Due This Week:

- **International Trade, July** [Release: Wednesday, September 19, 2001]
- **"Beige Book"** [Release: Wednesday, September 19, 2001]
- **New Residential Construction, August** [Release: Thursday, September 20, 2001]